While Charlie is still skipping the light fandango and turning cartwheels on the floor somewhere beyond our shores, we have a different article for you today from Max Williamson about the electric car and why you shouldn’t sell your oil and gas shares. It’s a good read, even if you don’t hold these shares or drive a Tesla.

Percy Allan says quite rightly that forecasting is a treacherous business that few get right. Percy is a market timer but in his article today he has a punt on how long the current stock market melt-up might last.

Sincerely,

Peter Switzer

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Don’t sell your oil & gas shares and buy a Tesla, just yet.

by Max Williamson

We’re constantly being bombarded by the media with stories on climate change, the impact fossil fuels are having on the air we breathe and the water we drink, supposed links between our current monstrous fires and stacks of issues other than the drought and the gas “guzzling” cars we drive to get around our vast country.

One group of disruptors and a heavily fortified and financed group of marketers (usually with vested interests, such as vehicle distributors and motor magazine writers) has extended that thinking on to a programme of information aimed directly at urging us, the consumers of Australia, to ditch our combustion engine vehicles forthwith and buy electric vehicles instead.

As a practising Chartered Accountant, number cruncher and a person of considerable experience with petroleum driven vehicles across multiple industries including the resources industry, it comes to a point when many of the positive aspects of electric vehicles need to be countered with real and definitive negatives before buyers sell their shares in quality oil and gas companies and buy depreciating assets like electric cars.

The realities of today’s need for transport vehicles

Based exclusively on facts provided by the NRMA in NSW and the Confederation of Australian Industries, we know the following as given and not imaginary creations:

- There are approximately 17 million vehicles presently registered for use on public roads and operating in Australia today.
- The life cycle of a typical combustion engine vehicle (excluding those written off in car accidents) is between 12 and 15 years.
- The current level of new registered vehicles in Australia today has varied over the last three years between 370,000 and 390,000 vehicles per annum and dropping in trend.
- SUVs make up approximately 60% of all new registered car style vehicles in the current market.
- Electric vehicle imports such as Tesla, Nissan Leaf and Hyundai Ioniq presently are around the 2,500 vehicles per annum.
- The number of electric vehicle charging stations available for electric cars (outside of personal residences and equivalent facilities in office blocks) within 200 kms of Sydney is around 140 (see www.plugshare.com).
- The current range for electric vehicles presently available on the market is between 200-300 kms and that is heavily influenced by driving conditions, drivers’ techniques in the way they operate their vehicles and the age of the batteries within the electric vehicles.
- An expected and usually guaranteed life of the battery within a new electric vehicle purchased today is between seven and 10 years, assuming the vehicle is properly maintained, serviced and the batteries themselves are adequately monitored and protected.
- A normal cost expectation for a battery in a current Tesla or BMW is between $12,000 and $15,000 and for a Nissan or Hyundai of $7,000 to $10,000. We have no records for older vehicles replacing their batteries today, or whether the older styles of batteries have lasted the seven years and whether an adequate recycling facility has been established to deal with these exhausted batteries.
We have had electric vehicles operating as motor cars for several years in Australia. There are websites that now operate as marketing outlets for quality electric vehicles such as www.carsguide.com.au. These typically show the original Tesla model, Jaguar I-pace and Nissan Leaf vehicles with depreciation rates in market value terms of around 20% p.a. for well-maintained vehicles.

The web also establishes new vehicle prices for electric vehicles in their very basic configurations for:

- Tesla Model 3 $75,000 (considered to be the EV of the Year)
- Jaguar I-pace $162,000
- Nissan Leaf $52,000
- Hyundai Ioniq $49,000 (as per NRMA Oct 2019 magazine)

Tesla does not manufacture a combustion engine vehicle, so there is no equivalent to compare performance or prices. However, the Nissan Leaf and the Hyundai Ioniq listed prices from the NRMA magazine are roughly double the equivalent combustion vehicle from the same manufacturers. We do not have statistics from Nissan or Hyundai that we are prepared to quote as being the import expectations for their local distribution arms into Australia over the next 12 to 18 months. Based on current demands for such vehicles of being less than 1% of all vehicles imported into Australia on average over the last three years, it is not unreasonable to expect between 2,500 to 3,000 electric vehicle imports in that time zone.

There are presently no subsidies available in the Australian markets to assist buyers in the purchase of electric vehicles. Our searches have not established any form of specific discount available to owners of electric vehicles over the cost of electricity supplied to recharge batteries in those electric vehicles.

In effect, barring some substantial involvement by the Federal and State Governments that causes massive market changes, those limited numbers of imported electric vehicles are likely to remain the importation expectations for some extended time frame.

One seriously important statistic not readily available is the number of vehicles sitting in dealer’s yards awaiting sale to the consuming public. Another is the number of combustion engine vehicles on the production lines of the multitude of manufacturers or on their way to Australia via those massive container vessels, compounded by the un-amortised payback periods manufacturers have on their current tooling for their existing vehicle streams. They have a vested interest in standing still.

**Regulations and electricity connections**

While we haven’t contacted multiple Councils about regulations covering charging of electric vehicles, a number of obvious issues arise before there can be any substantive increase in available charging points:

- No Council will allow any electric cable to cross the public verge over a gutter and into the coupling point of an electric vehicle parked in the street or in a driveway on public land;
- Existing buildings do not have the current electrical cabling that will enable electric vehicles to be charged at anything other than a very slow voltage charge (roughly 8 hours);
- Assuming building owners can be encouraged one way or another to install greater and more specific fast charging cabling, the buildings will also need substantial electronic upgrades through their main boards and if required, external sub-stations; and
- On the assumption that the substantial uptake of new electric vehicles will principally be focused on high net wealth areas, Councils will also need to substantially upgrade electricity delivery capacities into those same high net wealth areas or cause massive disruption and/or blackouts when the multitude of users return home and put their cars on charge at or about the same time of an evening.

Presently there are 11 different coupling mechanisms to connect electric cars to charging points. In Australia, there are two principal coupling appliances including adaptors. Tesla has the huge majority of charging points within say 300 kms of Sydney and Tesla has no interest in supplying electricity to vehicles other than Tesla vehicles, so they have their
own coupling connection. Owners need to buy adaptors that will work with their vehicles on the alternative supply points.

Obviously, if there is to be a major increase in the number of electric vehicles in a concentrated area like Sydney, that fact is going to cause a major increase for required electricity generation. And that in itself must drive up electricity prices for everyone, including those people who do not have an electric vehicle. So why would the mass population be comfortable with such a fact?

**Overseas experiences and issues**

Our motor magazine writers all take great pleasure in identifying that all major manufacturers are presently conducting research and have “plans” to introduce a range of electric vehicles soon (e.g. VW now spending several billion US$'s in their research and design works in Germany). When you approach the local distributors of such vehicles they have been informed not to consider any changes to their business models, facilities or staff training before 2023.

Ford will be making an electric Mustang and BMW will be producing an electric Mini, but what we are not going to be told in what volumes, over what time frames and when they will be available in Australia.

The simple question that should be on every buyers lips will be why would a major manufacturer of motor vehicles be interested in large volume manufacture of electric vehicles until they wind down their stock of unsold vehicles and have paid off their investment in tooling for petroleum combustion vehicles?

The next question would be we have so many vehicles on the road today or in second-hand car dealer’s yards, do we suddenly just junk all those vehicles that all have years to run before their 12 to 15 years cycle ends. That is not going to happen, but smart people will be interested.

If it is correct that electric vehicles will start to seriously impact new vehicles sales volumes, will the existing manufacturers have pricing policies to get their stocks of existing combustion engine vehicles out and off their books and what will that do to the second hand car markets? Just by selling a non-electric vehicle that keeps open the dealer’s market for parts and servicing and perpetuates the normal person’s expectations of what vehicle they can afford to drive.

The European Union has legislated emissions controls requirements over any new vehicles to be manufactured in Europe or distributed in Europe. Those emissions controls regulations work in such a way that manufacturers achieve reductions in emissions based on averages and average improvements. In effect those same manufacturers will be playing the game of controlling the numbers of their different vehicles manufactured each year while still keeping the price points around where they can sell enough vehicles to make a profit.

We are also bombarded with how price competitive electric vehicles have become in Europe. Fact is that is mainly via Government subsidies. Denmark did actually subsidise the purchase price of electric vehicles until very recently and when they removed those subsidies sales dropped by 80%.

**Conclusion**

There is a massive shortfall in infrastructure that will eventually be dealt with to support the electric vehicle industry, but just how many years that’s going to take is beyond my imagination. It took us 100 years to get where we are today with combustion engine vehicles.

The Federal and State Governments are disinterested in subsidies and without very substantial subsidies, the current situation of very low market penetration isn’t going to change.

Cost is a real issue for electric vehicles. While it is up to consumers to determine price quality considerations, the current price of the mass market end is too high to attract the average Australian, the leasing companies or the big fleet owners.

If you ask what companies have a vested interest in heavily talking up issues like climate change, the quick answer will be new manufacturers like Tesla who are market disruptors and also the Chinese, who have the ability to manufacture large volumes of new styles of vehicles without having to worry about patents and dumping.
Technology is going to expand dramatically on all types of vehicles, including hybrids, hydrogen and petroleum driven vehicles over the next 10 years, so is there sense in investing in today’s technology unless forced?

The price of a hybrid vehicle is roughly 20% more than a standard model vehicle like a Toyota Camry and it would do virtually all that an electric car would do, excluding hoon values for that 200 metres off the lights. You do not need to spend $75,000 plus to buy an electric vehicle and still substantially achieve the reduction in emissions (e.g. Toyota Rav 4 Hybrid is said to operate under normal conditions at 5.8 litres per 100k and costs between $35,000 and $39,000).

DON’T SELL YOUR OIL AND GAS SHARES to buy an electric vehicle.

If you have around $75,000 to buy a new passenger vehicle, you are green conscious, have access to good safe power at your personal residence, have a daily transport requirement of less than 250 kilometres, you need a new (or near new) vehicle today and love the instant power off the lights, you may choose an EV like a Tesla Model 3 but good luck.

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World share markets including Australia are primarily driven by what happens on Wall Street because America’s market accounts for over half the global market. It’s the elephant in the room. Turning points in the Australian All Ords share price index closely follow those of America’s S&P 500 index.

The media focuses on Trump’s trade war with China, Johnson’s Brexit victory and Trump’s latest showdown with Iran. These cause ripples on Wall Street but not waves. The real force since the end of the global financial crisis in 2008 has been LIQUIDITY. Whenever the Federal Reserve has added to bank cash reserves by buying government bonds or other securities, the US stock market has soared. And whenever it has stopped doing so the market has corrected.

If you don’t believe me, look at the next chart that traces the history of Quantitative Easing (liquidity creation) since the GFC. The blue bars mark when liquidity was tightened and the unshaded parts when it was expanded. Ignore the last blue bar because QE4 (going under a new title “Repo Purchases”) has still not ended.

Around the world central banks mimicked the US Federal Reserve in expanding or tightening liquidity and lowering or raising official cash rates. The next chart shows how all central banks as a group have hiked or cut rates for the past two decades. Note how market corrections or crashes (2000, 2008, 2011, 2016, 2018) were preceded by rate rises. Each liquidity burst was accompanied by a fall in the official cash rate and each liquidity pause was accompanied by a rate rise.

In fact, the Federal Reserve has QE4 on full throttle since September last year as can be seen by the red
line in the next chart. The recent dip in bond purchases is seen as a brief pause, not a change of direction.

This suggests the US share market’s current melt-up will continue until the Fed slows down or stops its money printing or something else occurs that precipitates a credit squeeze.

Indeed, market optimism late last year reached its highest point in a decade according to Sentiment Trader, the mirror opposite of a year ago when market pessimism spiked. See next chart.

Of course, the sheer take-off in the US stock market could trigger its own pullback. The upward thrust has reached extremes in terms of both its deviation from long term trend and its relative strength over a shorter period. See next chart. Whenever this has occurred in the past the market usually retreated within a month or so of it happening which would suggest that might be imminent. Such a stumble would most likely encourage the Federal Reserve to keep pumping money into the economy, thereby fuelling the bull market further.

Also at present there is incredible shareholders complacency towards risk. For instance, the difference (spread) between the high yield (junk debt) CDX index and U.S. Treasury yields has fallen back below 300 basis points. That last occurred in early 2018 and mid-2014 and indicates investors are prepared to chase extra yield by buying junk bonds, even if they return little more than government-backed bonds.

Another illustration of investor complacency is the historically low PUT/CALL ratio. This reflects the number of “put options” being bought on the S&P
500 (to hedge risk) versus the number of “call” options purchased (to “lever up” risk.)

CBOE Equity Put/Call Ratio

Source: https://ycharts.com/indicators/cboe_equity_put_call_ratio

So in the near term, expect a stock index pull-back of 5% to 10%, but not a correction or crash in excess of this unless the Federal Reserve announces its Repo Purchases are over or Middle-East tensions see oil prices soar. Also the period from October to May is normally bullish for US shares as shown in the next chart.

For my Big Picture outlook for the rest of this year and for the decade ahead, take out a free trial subscription to Market Timing Australia at https://www.markettimingaustralia.com.au/

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This pattern also occurs in Australia though the period is shorter (just December to April) according to Shane Oliver of AMP Capital.
New Year investment stories are usually full of buy ideas. I’ll start off my first Switzer Report column for 2020 with a sell idea: tourism, a sector I have long favoured.

For clarity, I still like the prospects for listed tourism companies over 3-5 years. As I have explained before in this Report, the coming boom in middle-class consumption in emerging countries is a long-term tailwind for our tourism industry.

But the industry’s short- and medium-term prospects (zero to three years) have become more challenging due to natural disasters, a slowing economy, rising competition and on valuation grounds in some high-flying tourism-related stocks.

As always, seek financial advice or do extra research of your own with sell ideas (and buy ones, for that matter). Selling stocks can have Capital Gains Tax (CGT) and other asset-allocation implications. Every investor is different.

Caveats aside, I’ve become concerned about tourism’s prospects over the next few years. Growth in international arrivals is slowing more than expected, although still remains high.

A record 8.6 million international tourists visited here in the year to June 2019 – 3% more than in the previous year, Tourism Research Australia data shows. A disappointment was 1% growth in Chinese visitors.

Tourism proponents will point to impressive growth from Japanese and US tourists and the record $44.6 billion in total trip spend from international tourists, up 5% year-on-year.

However, caution is needed with the overall figure: higher international airfares and education fees (I’ve never understood why international education is counted in tourism spending) ADDED TO the result. Growth in visitor nights was a modest 1%.

So, the backdrop is slowing growth in tourism off a strong base. These figures do not include the impact of international and domestic tourism from the bushfires in New South Wales and Victoria over the New Year or the fallout if the fires continue over summer.

The bushfires attracted a flurry of international headlines and support from movie stars and other celebrities. Ill-informed infographics in news bulletins wrongly showed most of Australia burning and in some cases disaster photos years out of date were used.

Misinformed offshore news coverage – and the perception it creates – will almost surely deter some international tourists from visiting here this year and next. I’m not suggesting a dramatic downturn, but flatter growth in international arrivals in 2020 is a possibility.

Domestic tourism will also be affected. If our weather continues to become hotter and drier, more people will rethink their summer holidays. There was talk over summer that Australia should delay its peak holiday season from December/January to March/April, to avoid the peak of the bushfire season and make it easier to contain bushfires.

Although that will never happen, I suspect more people will factor in rising temperatures and the bushfire threat when planning their summer holiday next year. Some might shorten their break, preferring to holiday for longer in cooler months, possibly overseas.
Australia’s sluggish economy is another factor. AMP Chief Economist Dr Shane Oliver expects the bushfires to reduce Australia’s economic growth by 0.4% in the March quarter. A period of rebuilding will then boost economic activity, but as Oliver notes, “the hit to consumer spending and tourism is likely to linger longer”.

He wrote this month: “Inbound tourism is likely to be impacted by the heavy coverage of the bushfires globally, with ridiculous maps showing much of Australia on fire likely to adversely affect perceptions of Australia. This may be short-lived (just as the positive boost from the 2000 Olympics was) but it could still last a year or so.”

Against that, rising house and share prices might make Australians feel wealthier and encourage them to travel in 2020. I’m betting that persistent low wages growth, high household debt and waning consumer sentiment will dampen the travel plans of more people this year.

Again, I’m not suggesting Australia’s tourism industry has big problems ahead or that the slowdown will be long-lasting. Rather, that several tourism-related stocks are seemingly priced for perfection, even though the sector faces growing headwinds.

Here are 3 tourism-related stock ripe for profit-taking.

1. **Sydney Airport (SYD)**

   The infrastructure monopoly, a favourite stock of mine for years, has a total return (including distributions) over one year of 39%, Morningstar data shows, despite flat passenger growth at its terminals.

   Sydney Airport in December reported year-to-date passenger growth of just 0.1% to November 2019. Domestic travel fell slightly, partly because of reduced seat capacity, and international passenger numbers – previously an area of strong growth – were up just 1.2% year-to-date.

   Chinese passenger numbers (including Hong Kong) were down 6% in November. Riots in Hong Kong and the US/China trade war have hurt Chinese arrivals at Sydney Airport, as have Brexit uncertainties with

   United Kingdom arrivals.

   Morningstar’s fair value of $7.30 compares to Sydney Airport’s current price of $8.76. Low interest rates are supporting valuations for Sydney Airport and other interest-rate-sensitive stocks, but they won’t be enough to prop up the valuation if passenger growth slows further.

2. **Qantas Airways (QAN)**

   I nominated Qantas as a stock to sell in December 2019 for this report and stand by that view. Yes, Qantas is a great company. However, the share price has not sufficiently factored in softening demand for air travel and with that pressure to lower fares and profit margins.

   Qantas has fallen from $7.25 to $7.11 since that story in a rising share market. I’ve been too bearish on Qantas before but am wary of overpaying for it given the tourism challenges.

   The consensus of eight broking firms has an average share-price target of $7.08 for Qantas, a little below the current price, suggesting the airline is fully valued. After stellar gains over the past few years, some profit taking in Qantas seems prudent.
3. **SeaLink Travel Group (SLK)**

The ferries operator, a stock I have written on favourably for this report on the years, has been a strong performer since it listed on ASX in 2014. The business is superbly leveraged to international tourism growth through its Captain Cook Cruises in Sydney and Perth, and its various island ferry services.

The well-run SeaLink has delivered a total return of 19% over five years – a performance that made it one of the higher-quality small-cap floats in the previous decade.

SeaLink shares soared more than 40% in October 2019 after it announced plans to acquire Transit Systems Group – Australia’s largest private operator of metropolitan bus services and an established bus operator in London and Singapore – for $635 million.

The market loved the acquisition, its potential to create the nation’s leading integrated bus and marine passenger transport services and the synergies between the two.

SeaLink has since fallen from a 52-week high of $5.31 to $4.60, partly as a result of significant damage from bushfires at its Kangaroo Island lodge. The damage will not have a material adverse impact on SeaLink’s earnings, but the broader effect of the natural disaster – and its effect on domestic tourism travel next summer – could weigh on the ferry business.

At $4.60, SeaLink is on a trailing Price Earnings (PE) of almost 20 times. The company deserves to trade on a premium given its performance, management and governance – and the long-term growth potential of its bus acquisition.

That said, large acquisitions often pose integration challenges for small-caps a year or two after the deal when the market’s positivity fades and reality sets in. A softening domestic economy and potential for weaker domestic and international tourism activity in SeaLink’s key markets are other risks.

That justifies some profit taking, with a view to buying back into SeaLink at lower prices later this year for investors who have small-cap exposure in their portfolio.

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**SeaLink Travel Group**

*Source: ASX*

**Tony Featherstone is a former managing editor of BRW, Shares and Personal Investor magazines. The information in this article should not be considered personal advice. It has been prepared without considering your objectives, financial situation or needs. Before acting on information in this article consider its appropriateness and accuracy regarding your objectives, financial situation and needs. Do further research of your own and/or seek personal financial advice from a licensed adviser before making any financial or investment decisions based on this article. All prices and analysis at 14 January 2019.*

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Buy, Hold, Sell – What the Brokers Say
by Rudi Filapek-Vandyck

In the good books

Evolution Mining (ERVN) was upgraded to Outperform from Underperform by Credit Suisse.

Preliminary operating results for the December quarter reveal Mount Carlton production is expected to be at the bottom end of the guidance range. Credit Suisse suspects, while cost guidance is unchanged, achieving the target may be at risk. FY20 guidance for Mount Carlton of 70-75,000 ounces reflects 10% of group production. While a small component, this mine has been an historical outperformer and strong generator of cash for the company.

Credit Suisse believes the water risk is moderating at Cowal as the company’s strategy to secure more water from alternative sources such as bores is progressing well. Rating is upgraded to Outperform from Underperform on share price weakness. Target is $4.30.

See downgrade below.

Metcash (MTS) was upgraded to Neutral from Underperform by Credit Suisse.

Credit Suisse upgrades to Neutral from Underperform as the stock reflects better value. The target is raised to $2.64 from $2.39. Nevertheless, Credit Suisse understands it is challenging to resolve the competitive issues facing the business and there is no easy solution to the heavy risk weighting applied to the company’s food division. The broker floats the idea that, whilst not a perfect solution, the sale of food distribution to retailers could achieve a better alignment of interests and facilitate a high level of investment.

Netwealth Group (NWL) was upgraded to Buy from Neutral by Citi.

Citi upgrades Netwealth Group to Buy from Neutral, envisaging upside to near-term earnings from better-than-expected flows. Target is steady at $9.60. Findex, an advisory firm with $17bn under advice, has launched a new platform offering. Pricing is materially lower than current platform pricing but Citi does not expect this to impact the near-term earnings of its competitors, given the likely time required to gain traction among independent wealth firms.

Oceanagold (OGC) was upgraded to Buy from Accumulate by Ord Minnett

Ord Minnett upgrades to Buy from Accumulate based on valuation. Target is raised to $4.20 from $4.10. The broker continues to be attracted to the turnaround potential in the business, expecting the strategies will become clearer in February when guidance is provided. This stock is not covered in-house by Ord Minnett. Instead, the broker white labels research by JP Morgan.

St Barbara (SBM) was upgraded to Buy from Accumulate by Ord Minnett

Ord Minnett upgrades to Buy from Accumulate based on valuation and raises the target to $3.40 from $3.10. The broker continues to be attracted to the deeper value and turnaround potential, expecting more clarity in February when the company provides guidance and plans for key projects. This stock is not covered in-house by Ord Minnett. Instead, the broker white labels research by JP Morgan.

Woolworths (WOW) was upgraded to Equal-weight from Underweight by Morgan Stanley–
Morgan Stanley believes Woolworths is now better positioned, as industry margins have re-based and there is scope for operating leverage. Deflationary pressures are easing, and valuation now reflects this as well as a range of supply chain initiatives and improving online profitability.

Hence, the broker upgrades to Equal-weight from Underweight and raises the target to $36.50 from $28.00. Adjusted earnings estimates are raised by 1-3% over the forecast period. Industry view: Cautious.

In the not-so-good books

Coles (COL) was downgraded to Underweight from Equal-weight by Morgan Stanley.

Morgan Stanley observes supermarket industry margins have re-based and this has paid off for the major operators. The broker believes execution will be a differentiator in supermarkets in 2020 and Woolworths has a margin advantage, partially reflecting its scale advantage. This is considered unlikely to be eroded over the medium term.

While acknowledging a benign backdrop, the broker still struggles to find meaningful valuation upside for Coles and downgrades to Underweight from Equal-weight. Target is raised to $13.50 from $13.00. Industry view: Cautious.

Evolution Mining (EVN) was downgraded to Neutral from Outperform by Macquarie.

The company has experienced a soft December quarter with Mount Carlton the main area of weakness. A geological review has reduced FY20 production expectations. Given a narrowing of the ore lode is also being noted in the underground mine, Macquarie assesses there will be an impact on longer-term production.

The company is also taking steps to mitigate the effects of an escalation of water restrictions at Cowal. An increase in the salinity of processing water will affect near-term costs at the mine. Macquarie downgrades to Neutral from Outperform and reduces the target by -10% to $3.80

See upgrade above.

Fortescue (FMG) was downgraded to Hold from Buy by Ord Minnett.

Ord Minnett notes the shares have surged more than 150% in 2019, but as iron ore approaches US$100/t investors may be reluctant to chase the stock, fearing the market will become overheated. The stock still offers a strong dividend yield but has approached fair value and the broker downgrades to Hold from Buy. Target is raised to $11.00 from $10.50. This stock is not covered in-house by Ord Minnett. Instead, the broker white labels research by JP Morgan.

Independence Group (IGO) was downgraded to Lighten from Hold by Ord Minnett

While the macro outlook remains favourable, Ord Minnett believes several stocks in the base metals sector are overvalued.

The rating on Independence Group is downgraded to Lighten from Hold with the target steady at $5.70.

Mosaic Brands (MOZ) was downgraded to Hold from Add by Morgans.

The company’s first half trading update was below expectations, with the Christmas period being affected by the recent bushfires. As a result first half operating earnings (EBITDA) are expected to be $33m. The impact of the fires has continued into the start of the second half and management will provide an update at the first half result in late February. This could mean the full year outcome is below revised expectations. The stock remains attractively priced from a valuation perspective but Morgans downgrades to Hold from Add to reflect elevated earnings uncertainty. Target is reduced to $2.40 from $3.46.

Orocobre (ORE) was downgraded to Sell from Hold by Ord Minnett

Ord Minnett downgrades to Sell from Hold, raising the target to $2.55 from $2.25. The broker expects global GDP growth could rebound by mid-year, linked to a
fading drag from political conflict. However, miners largely reflect this improved outlook and inexpensive valuations will be harder to find. This stock is not covered in-house by Ord Minnett. Instead, the broker white labels research by JP Morgan.

Pendal Group (PDL) was downgraded to Hold from Add

First quarter funds under management of $101.4bn were up 1% on the prior quarter. Further net outflows were experienced at JO Hambro. Morgans observes the stock has rallied from a previously undemanding valuation because of improved sentiment in UK markets.

As the stock is now trading in line with valuation the rating is reduced to Hold from Add. Some risk of sustained outflows, amid a preference for the growth path being less reliant on market direction, prevents the broker from taking a more positive view. Target is reduced to $8.83 from $8.85.

The above was compiled from reports on FN Arena. The FN Arena database tabulates the views of seven major Australian and international stock brokers: Citi, Credit Suisse, Macquarie, Morgan Stanley, Morgans, Ord Minnett and UBS. Important: This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regard to your circumstances.